



## Toronto-Dominion Bank Could Be Your Ticket

### Description

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) normally trades at a premium over all of its peers in the Big Five, but right now the valuation gap has shrunk, and it's actually trading in line with some of its peers like Royal Bank of Canada or Bank of Montreal, both of which have exposure to the U.S. economy, which is expected to be major tailwinds over the next few years. Once Donald Trump's pro-business policies are formalized, I think there's a huge amount of room to run for Canadian banks that are heavily exposed to the U.S. market.

The Big Five banks are the essential core to any Canadian investor's portfolio. They're generally terrific plays that offer somewhat of a safety, as well as top-notch dividend growth. Although the Canadian banks had an amazing run over the last year, I still think investing in any one of them will give you great returns over the long haul, but I believe Toronto-Dominion Bank is the best of the bunch and is better positioned to offer the greatest amount of dividend growth over the next five years.

Over the past few years, the Big Five banks have traded in line with each other with the exception of two outliers. **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), which has typically traded at a discount, and Toronto-Dominion Bank, which typically trades at a premium to those in the Big Five. Of course, the valuations have fluctuated over time but, in general, what's the reason for the valuation difference?

### The Canadian banks come in different flavours

The general public believes that Canadian Imperial Bank of Commerce is the riskiest play because it's heavily exposed to the Canadian market without much international diversification relative to its peers.

Until now, the general public believed that Toronto-Dominion Bank was worthy of a considerable premium over its peers because of its top-notch risk management strategy and its impressive expansion into the U.S. Right now, Toronto-Dominion Bank actually has more branches south of the border than in Canada. Toronto-Dominion Bank's U.S. business is solid and growing, so if the U.S. economy gets a boost, Toronto-Dominion Bank very well-positioned to soar above and beyond its peers. Once this happens, the valuation gap between Toronto-Dominion Bank and its peers

is likely to increase again.

Sure, Toronto-Dominion's Canadian business isn't something to write home about right now, but over the next few years, I believe it's Toronto-Dominion Bank's U.S. business that will really start to pay dividends. Both figuratively, and literally.

Based on traditional valuation metrics, Toronto-Dominion appears to be trading at a fair value, but when you consider the long-term tailwinds, the stock appears to be trading at a discount to its intrinsic value.

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## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

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## Date

2025/09/13

## Date Created

2017/04/26

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